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The taxation of ground values

London

1889

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THE

TAXATION

OF

GROUND VALUES.

BY

J. FLETCHER MOULTON, Q.C.

PRICE ONE PENNY.

LONDON:
UNITED COMMITTEE FOR THE TAXATION OF GROUND RENTS AND VALUES,
18 BOUVERIE STREET, FLEET STREET, E.C.

1889.

THE

"UNITED COMMITTEE"

FOR ADVOCATING THE

TAXATION OF GROUND RENTS & VALUES

(Organised by the London Municipal Reform League and the English Land Restoration League.)

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It is proposed to raise a fund for the distribution of a copy of this pamphlet to every elector in London. Subscriptions and Donations will be gratefully received by the Hon. Treasurers, as above.

THE TAXATION OF GROUND-VALUES.

Object of this Paper.

THIS Society for the Taxation of Ground Values has for its object the reform of Local Taxation by readjusting the incidence of the rates which form its chief part. The novelty of the subject as a part of practical politics has caused the aims and principles of the Society to be imperfectly understood and it has therefore been deemed desirable that they should be clearly explained and put on record.

LOCAL EXPENDITURE AND LOCAL TAXATION.

Growth of Local Expenditure.

The growth of local expenditure in England during recent years is admittedly a matter of the gravest importance. In former times, the amount spent by the community for local purposes was small and was devoted to but few objects. But in later years local expenditure has developed enormously. This is not due solely to the increase of population. On the one hand it has been felt necessary to discharge more thoroughly and at greater cost the ordinary services of sanitation &c., and on the other hand many new objects, such as Primary Education and the provision of Parks and Open Spaces for the people, have been allowed to claim their share. So large have been the sums annually spent in these ways, that it would have been impossible to meet them by immediate taxation, and the difficulty has been temporarily overcome by borrowing on the security of future rates. Thus have been contracted the large local debts which for many years to come will impose a heavy burden upon the community.

The extent of this recent growth of local expenditure and local indebtedness is not generally realised. The total of the Local Budgets for Great Britain and Ireland in 1885-6 was £67,842,277, which was equal to more than 75 per cent. of the imperial revenue of that year. Of this sum no less than £55,738,420 related to England and Wales alone. The portion of this total sum levied by rates in England and Wales in that year was £32,177,883. The amount thus raised has been growing at a very rapid rate. In 1841 the total sum raised by rates in England and Wales was £8.550,000. In 1873-4 it had increased to £18,906,137, in 1883-4 to £24,934,147. This increase, as might be expected, is most marked in the towns. During the ten years between 1873-4 and 1883-4 the rates in the Metropolis had risen 60 per cent., those in urban districts outside the Metropolis had risen about 52½ per cent., while those in districts wholly or partly rural had only risen about 12 per cent. But the increase in local taxation does not adequately represent the growth of local expenditure unless we also take into consideration the local debts which were contracted during the same period. In 1883-4 the total amount of these debts was £164,879,947, and they had for some years been increasing steadily at the rate of about £8,400,000 a year. Thus, while the efforts of our statesmen have been directed to reducing the National Debt, and we speak of its having been diminished by £115,000,000 between the years 1815 and 1884, the nation has in reality been going deeper and deeper into debt, because the reduction in the National Debt has been overtopped by the increase in the local debts.

It is probable that local expenditure is still far from having attained its ultimate limit. This is not to be regretted. The increase has in the main been due to the advance of cultivation and enlightenment which has brought with it a wider and clearer perception of the necessities of our complex civilization and the duties of the community towards its members. We have begun to realise that the great aggregations of

population which form our towns have needs, hitherto unrecognised, which must be satisfied if the present prosperity and even the existence of those towns are to continue. This awakening to a sense of our duties and opportunities is of very recent date, and we are ever becoming more conscious of our shortcomings in these respects so that we may expect that abundant scope for increased local expenditure of a wise and profitable kind will be found in the immediate future.

NATURE AND ORIGIN OF RATEABLE PROPERTY.

Injustice of existing system of rating.

Although this increased local expenditure sustains and contributes to the prosperity of the community, and is thus a wise economy, there can be no doubt that the local taxation by which it is met has become a grievous burden. The rates are already sufficiently heavy to cause great suffering and hardship, and any substantial increase in them would be so serious a matter that the people would probably refuse to consent to it even for purposes which they felt to be desirable and necessary. The cause of this condition of things is not far to seek. While we have been reforming and extending our local expenditure we have left local taxation unreformed. It still consists substantially of rates levied indiscriminately upon landed property situated within the town in proportion to its supposed rental value, without any regard to the nature or origin of that value. It is to this rude and inequitable system of taxation that we owe the strange phenomenon that, while our towns are struggling under the burden of debt and oppressive rates, and the poorer classes of our population live in filthy and miserable dens, the growth of the value of the land in those towns and the wealth of its owners are almost fabulously great.

Very little consideration is sufficient to show that this system of levying rates is both absurd and unjust. The annual value of a building in a town depends upon two elements, viz., the value of the ground upon which it stands, and the value of the structure itself. The latter is due solely to the outlay of capital by the builder in erecting and maintaining the building, which, like all fixed capital, is liable to depreciation and ultimately becomes valueless and must be replaced. The capital invested in the erection of buildings in a town differs in no respect from other kinds of fixed capital, except that it often has special claims to favourable treatment at our hands, because it is of the highest importance that all the members of the community should be well housed.

Origin of Ground-Values.

The value of the ground upon which the buildings stand is wholly different in its origin. It is not due to expenditure on the part of the owner or his predecessors, but to the fact of the presence of the town. The community by settling in that locality has created a demand for that land which increases in intensity with the growth of the community and the energy and activity which it displays in its development. Were it not for the choice by the community of this neighbourhood for its habitation, the land would possess only its ordinary agricultural value, and if anything should occur to prevent the continuance of that habitation, it would revert to that value. Everything which increases the general prosperity of the town increases the demand for the land and the price which it commands, so that the owners see its value rising continually without any effort or expenditure on their part, and as the growth of the towns is the characteristic feature of the social development of this century the value of town lands has in this way increased to an enormous extent.

But it is not only by the general prosperity of the community that the value of town land is increased. The community is continually creating at its own expense fixed capital in the shape of streets, bridges, open spaces, public buildings, sewers, &c., &c. These render the town more commodious and more desirable for business or habitation. The whole benefit of this outlay of capital inevitably passes ultimately to the owners of the land upon which the town is built just as completely as if they had made the outlay out of their own pockets to develop their own property. It is true that these improvements are supposed to belong to the public, but this makes no difference. Their effect is to increase the desirability of the town as a place of settlement for the community, which is the source from which the land of the town derives its value. They thus operate directly to enhance the value of the land and, under the present system, there is nothing to interfere with the landowners' requiring the full amount of that enhancement to be paid to them in rent. The moment when they actually enter into the receipt of these enhanced values may be delayed by reason of existing leases, but they inevitably obtain them, and in the meanwhile they reap the benefit in the increased security of their ground rents, and the increased value of their reversions. Even the more ordinary local expenditure which is devoted to the maintenance of existing streets, sewers, &c., is largely for the benefit of the landowners. Their land can only preserve its enhanced value by the maintenance of those works which have enabled it to acquire that value.

Growth of Ground-Values.

It is not surprising that the large and rapidly growing local expenditure in our towns should under these circumstances have created immense land values. Our present system of assessment does not enable their magnitude to be readily ascertained, and we are left to rely upon private estimates made by men who have given close attention to the subject. Mr. William Saunders, of the London County Council, has calculated from the best data which he could obtain, that the annual value of the land in the Metropolis is about £16,728,830. The estimates of Mr. Sydney Webb (Lecturer on Economics in the City of London College) make the value about £15,000,000. The whole net annual assessed value of property in the Metropolis is about £30,000,000, so that these estimates would show that of this huge annual value, one-half represents the rental value of the land. Mr. Charles Harrison, of the London County Council, estimates the value of the land to be about one-third of the whole value of the rateable property of the Metropolis. Whichever of these estimates is correct, it is evident that the value of the land of the Metropolis is enormous. In certain localities the value is so great that it makes the value of the buildings appear small in comparison. It is known that 30s. to 40s. per square foot per annum represents the value of land in some parts of the City of London. This corresponds to a rental value of £65,000 to £87,000 per acre for land which, but for the presence of the community in that particular locality, and its expenditure past and present, would at most possess a rental value of £2 or £3 a year.

It must not be thought that because, taken broadly, the interest of the landowners of a town is identical with that of the town whose existence and prosperity has created the value of their land, therefore the immediate interest of particular landowners is so. Such would probably be the case under a rational system of local taxation and land tenure, but under the present system, in which improvements are effected at the public expense for the benefit of the landowners, the contrary is

too frequently the case. The greater the pressure of population and the less land there is in the market to house it, the higher the rents that can be obtained. The more crooked and incommodious the streets and the greater the inconvenience they cause, the more probable that the public will be forced to make new streets and so enable the landowners to obtain enormous prices for the land taken, while the value of the adjoining land is materially increased. Even the misery of the wretched dwellers in our overcrowded slums is turned to the profit of the landowners under the too favourable provisions of the Acts which give power to the community to deal with such localities.

IMMUNITY OF LANDOWNERS FROM RATES.

Immunity of Landowners from Rates.

Seeing then that these swollen ground-values (though they have become the private property of the landowners) are chiefly created and maintained by public expenditure, while the value of the buildings in a town is created and maintained at the cost of private owners, it is evident that these two descriptions of property ought to contribute to local taxation in very different ways and to very different extents. Yet strange to say we have hitherto been content with a system of taxation which makes no distinction between them, and levies one undiscriminating tax on the sum of the two. This would not be a matter of great importance if the occupier of buildings within a town were usually the freeholder. He would then have to pay the whole of the rates upon the land and buildings, and it would be immaterial whether he paid them in his character of owner or occupier. But he is ordinarily a mere tenant or lessee, and as the rates under our present system are levied on the occupier and not on the landowner, the latter in most cases escapes all taxation whatever. This is emphasised in the Metropolis, and in many other parts of England by the peculiar tenure under which town-land is commonly held. The owner lets it on a building lease to persons who undertake to erect and maintain buildings of a certain kind and value, to bear all local rates upon the property and to pay him a fixed ground rent throughout the whole term of the lease. During all that period he can control absolutely the use that is made of the land, since no change or alteration can be made in the buildings without his consent; and he receives the ground rent without any deduction in respect of rates. And, when at the end of the lease the whole becomes his absolute property, he finds himself the owner not only of the buildings but of the full ground value that has been created during the period of the lease by public expenditure to which he has not contributed one farthing.

Theory that Rates are a Personal tax on Occupiers.

It is probable that the anomaly of treating alike these two kinds of property which differ so widely in their origin, nature, and incidents would long ago have attracted the attention of statesmen and compelled reform had it not been for the prevalence of a notion that rates—though levied upon landed property—are in reality a personal tax paid by the occupier, and that they are levied on (*i.e.*, made proportional to) the annual value of premises solely because the rent of the premises he occupies is taken as a rough measure of his ability to contribute. There is, unfortunately too much truth in the view that under the present system the rates are *de facto* paid by the occupier and do not come out of the property rated. Many of the leases now existing were made at a time when no one anticipated that rates would increase as they

have done during recent years, and accordingly no due allowance was made for them. Even at the present time the uncertainty as to the changes which may take place in ground values and rates in the future, and the universality of the practice of throwing the payment of rates on the actual occupier frequently enable the landowner to exclude the consideration of rates in fixing his ground rents to such an extent that he escapes bearing them to any but a trivial amount. But this theory that rates are and are intended to be a personal tax on the occupier only renders the present system more indefensible. On the one hand the owners of the property benefited by the rates escape contribution, and on the other hand the apportionment of the tax among the different classes of the community is grossly inequitable. It would be difficult to devise a tax that would press more heavily on the poorer as compared with the richer classes than one in which the payment is proportionate to the rent, for it is notorious that the poorer a man is the larger is the portion of his expenditure that goes in rent.

State of Local Taxation in Towns.

The position of Local Taxation in our towns is therefore as follows:—The proceeds are to a large extent expended in creating and maintaining the enormously enhanced value of the land upon which the town is built, while the owners of that land, who profit thereby, contribute little or nothing directly, and but a small and uncertain part indirectly, to that taxation.

OBJECTS OF THE SOCIETY.

The object of this Society is to change this state of things.

Starting from the fundamental proposition that the enormously enhanced value of town lands depends immediately upon the maintenance and development of the town and upon its being adequately supplied with such appliances of civilisation as will enable it to carry on an active life, this Society claims that the cost of all this should be regarded as expenditure necessary to give these values to the land, and therefore properly chargeable against it. There can be no reason in fairness why those who enjoy the increased values should not bear the cost of increasing them. And, if this principle be followed, the difficulties of the community in respect of local taxation will be greatly lightened, if not removed. Though the growth of local expenditure is strikingly rapid, it is less so than the rise in the value of town land, so that side by side with the increase of that expenditure, there is created a property which grows even more rapidly, and which, as it owes its origin to that expenditure, constitutes the natural source from which it should be supplied.

FUNDAMENTAL PRINCIPLES OF THIS SOCIETY.

The two fundamental principles of this Society are, therefore, as follows:—

(1) *That the local taxation of a town ought to a large extent to be levied upon the owners of the land within the town, in proportion to the annual value of their land.*

(2) *That no arrangement should be permitted to interfere with the landowners' obligation to pay this tax personally.*

Ground-Values the proper subject of substantial Local Taxation.

It is scarcely necessary to reinforce by further arguments the first of these propositions. It is only fair that the ground-values created and maintained by the existence and development of the town should bear the expense of the common outlay necessary to the continuance of that existence and that development. That the share of the whole

taxation which ought thus to be borne by the land of a town is very considerable appears alike from a consideration of the extent to which the value of the land has been increased, and of the nature of the expenditure which the taxation has to meet. The agricultural value of the land of the Metropolis would be liberally estimated at £250,000 per annum. The value has been increased, as we have seen, to several millions per annum by the existence of the Metropolis. The total local taxation of the Metropolis for all purposes is about £7,000,000 per annum, that is to say it is less than the ground-values which it, to so large an extent, creates and maintains. Again, if we examine the distribution of the expenditure it will be found that a considerable part is either to effect new public improvements or to repay debts contracted for like purposes in the past. Another considerable part is expended in maintaining the streets, sewers, &c., in a state of efficiency. Both these types of expenditure go directly to the creation and maintenance of land values. But even the remaining items relating to education, poor relief, &c., &c., are items which affect really, though less directly, these ground-values. They are expenditure necessary to the existence of the town, and as such they ought to be contributed to by the owners of the ground-values, which depend on the continued existence of the town.

Rates on Land to be paid by Landowner

The importance of the latter of the two fundamental principles of the Society is not less than that of the former. Without it any reform will be delusive, and the landowner will be able, as at present, to slip the burden from his own shoulders to that of the occupier by requiring him to undertake to pay the rates. But the evil of permitting such arrangements to be made, is not confined to their effect in enabling landowners to evade the taxation they ought fairly to bear. A further consequence of a most serious character is that they prevent or delay important public improvements. The whole cost of these improvements has to be borne by the occupiers while, as we have seen, the permanent benefit passes to the landowners who are thereby enabled to raise their rents. The overburdened taxpayers have thus to pay twice over for all these improvements and there naturally is a strong disinclination to undertake them. But if the cost to the occupiers represented only that portion of the total expense which is transitory, and would not go to enhance or maintain the value of the land, there would be no such unwillingness. The gravity of these considerations will be felt by all those who have given thought to the pressing question of the Housing of the Working Classes. This problem must shortly be dealt with in all our large towns, and probably its solution will be very costly, for it represents the accumulated results of long years of neglectful administration on the part of the authorities, and uncontrolled power on the part of the landowners. It is most important that the discussion of the proper mode of remedying the existing state of things should be approached with the consciousness that no unfair share of the cost will have to be borne by the already overtaxed occupiers.

NECESSARY LEGISLATION.

In order to carry out the principles contended for by this Society, is only necessary to legislate to the following effect:—

(1) That in towns the land and buildings should be assessed separately according to their respective annual values.

(2) That the rates levied upon the land and buildings respectively, in accordance with these assessments, should be separate and distinct.

(3) That the rate levied upon the land should be borne by the owners of the ground-values, each such owner paying personally the rate upon the ground-values owned by him; and that to effect this in cases where the rate is collected from the occupier, each occupier or lessee should be entitled to deduct it from the rent payable to the landlord, and that all arrangements to the contrary should be illegal.

We shall now proceed to examine these in the order in which they stand.

Separate Assessment of Land and Buildings.

There is nothing impracticable or even difficult in separately assessing land and buildings. Those who are accustomed to deal in land know that it is usual for surveyors to adopt this course in valuing town property. In many cases it is the only method of arriving at a correct valuation, inasmuch as the value of the property may depend upon its capacity for being used for other purposes. But if any doubt as to the practicability of such an assessment existed previously, it has been finally disposed of by the evidence given before the Land Valuation Committee appointed by the London County Council, and by the report of that Committee. To make such an assessment in the first instance will no doubt give some extra trouble to the officials of the assessing authorities, but when they have become used to the task, it will be no more difficult (though perhaps a little more laborious) than that which they now perform.

"Ground-Values."

These assessments of the annual value of the land (which we shall call "ground-values") represent the actual yearly value of the land at the time, and they have nothing to do with the particular use to which it is put, or with the buildings that are upon it, or with any arrangements that may exist between the landowner and his tenants. Nothing has occasioned greater confusion in the minds of the public with regard to the aims of this Society than the prevailing idea that these ground-values are necessarily the same as the ground rents reserved by the landowner in his leases. Such ground rents are arbitrary sums fixed by arrangement between the parties to the bargain and may vary from a peppercorn to the full ground-value of the land. They form a part of the ground-value but by no means necessarily represent the whole of it. When arranging the terms of the lease it may have suited the purposes of the landowner to accept a premium in lieu of a larger ground rent, or he may have been willing to accept a low ground rent in view of contingent advantages. None of these matters affect in any way the *ground-value* which is the *actual rental value of the land* apart from all question of what private arrangements may have been made respecting it by those who are interested therein.

Just as the assessment of the ground-values will give the actual annual value of the land within the boundaries of the town, so the assessment of the buildings will give their annual value, *i.e.*, the actual yearly value resulting from the outlay of private capital upon the land. The sum of the two will give the total annual value of the land and buildings which is that which is shown by our present assessment lists. It is most important to bear in mind that both these assessments must be based on *actual values*, for there is no invariable or necessary relation between the value of land and the value of the buildings upon it and although under ordinary circumstances it may be possible to make a

rough approximation to the one from a knowledge of the other, the result is not accurate nor will it hold good under changed conditions. It is to be hoped that one consequence of lightening the burden now laid upon capital that is expended in building will be that builders will find it profitable to construct better houses upon the land, because the increase of the value of the building will no longer cause so serious an increase in the rates which the occupier will have to pay.

Separate Rates on Land and Buildings.

When these separate assessments have been made, the land and buildings must have separate rates levied upon them. It is obvious from what has preceded that both justice and public policy point to the necessity for the rate upon ground-values being much heavier than that upon buildings. Indeed, it is a very doubtful question whether some kind of buildings should be taxed at all. To compel a man to pay a heavier tax because he prefers to live in a decent and well-built house rather than in a hovel savours of the absurdities of the Window-Tax. Moreover, any tax that is proportionate to rent presses, as we have said, most harshly upon the poor. It is probable that when the disturbing element of ground-value is removed, and buildings are assessed at the value of the buildings only, it will be possible to classify and adjust the rates upon them so as not to prejudice the good housing of the community, while they are still made to contribute fairly to the common expenditure.

Unoccupied Land.

It follows from these principles that unoccupied land must bear its full tax. As we have seen, the ground-value is independent of the use that is made of the land, and it must bear the rate upon its full annual value as land situated in the town, even though it is put to no use and is allowed to remain unoccupied. There is no injustice in this. Apart from exceptional cases (usually due to crises produced by over-speculation), a landowner can always either obtain a fair rental for his land, or sell it at a fair price. The ordinary cause of land remaining unoccupied in towns, is that the landowner puts an exaggerated value on the land, or is desirous to limit the amount of land in the market in order to raise the value of other lands which belong to him. The magnitude of this evil under the present system and the remedial tendency of such measures as are advocated by this Society appear very clearly from the following passage extracted from the First Report of the Royal Commission upon the Housing of the Working Classes, 1885:—

> In connection with any such general consideration of the law of rating, attention would have to be given to the following facts. At present, land available for building in the neighbourhood of our populous centres, though its capital value is very great, is probably producing a small yearly return until it is let for building. The owners of this land are rated, not in relation to the real value but to the actual annual income. They can thus afford to keep their land out of the market, and to part with only small quantities, so as to raise the price beyond the natural monopoly price which the land would command by its advantages of position. Meantime, the general expenditure of the town on improvements is increasing the value of their property. If this land were rated at, say, 4 per cent. on its selling value, the owners would have a more direct incentive to part with it to those who are desirous of building, and a two-fold advantage would result to the community. First, all the valuable property would contribute to the rates, and thus the burden on the occupiers would be diminished by the increase in the rateable property. Secondly, the owners of the building land would be forced to offer their land for sale, and thus their competition with one another would bring down the price of building land, and so diminish the tax in the shape of ground rent or price paid for land which is now levied on urban enterprise by the adjacent landowners, a tax, be it remembered, which is no recompense for any industry or expenditure on their part, but is the natural result of the industry and activity of the townspeople themselves.

> Your Majesty's Commissioners would recommend that these matters should be included in legislation when the law of rating comes to be dealt with by Parliament.

Mode of Collection of Ground Rate.

The third of these legislative provisions may require some explanation by reason of the complexities of land tenure in England. In order to obviate difficulties in the collection of the tax on ground-values, it is imperatively necessary to collect it from the occupier in the first instance. The occupier must then deduct it from the rent paid by him to his landlord just as he does in the case of the landlord's Property Tax. Thus, if the rate on ground-values be five shillings in the pound, and an occupier pays a rent of £1,000 per annum for a building standing upon land whose ground-value is £500 per annum, he will, as at present, pay the whole of the rates upon the premises (as well those upon the land as those upon the building), but upon paying his rent to his landlord he will be entitled to deduct at the rate of five shillings upon £500, *i.e.*, £125, in respect of the rate upon the ground-value which he has paid. He will thus himself only bear the rates upon the building. In order to insure that the landlord does not evade the payment of rates upon the ground-value it will, of course, be necessary, as in the case of the landlord's Property Tax, to declare that all arrangements to the contrary are illegal. This method of regulating the incidence of a tax is so familiar that it does not need to be discussed at length. It has been perfectly successful in the case of the landlord's Property Tax, and its necessity and justness in cases where the tax is intended to fall upon the owners of land are so well recognised that there are abundant precedents for it in legislation originating both with Liberal and Conservative Governments.*

The above example applies to cases in which the occupier pays the rent to a landlord who is owner of the land, but in many cases he pays it to an intermediate landlord, who himself is the lessee of the freeholder, and may have a far larger immediate interest in the land than the ultimate landowner. Suppose in the case given in the last paragraph, the landlord is not himself the freeholder, but holds the land from him at a ground rent of £100 a year. It will be evident that the intermediate landlord is himself the owner for the time being of four-fifths of the annual ground-value, and the freeholder is only the owner of the remaining one-fifth. Now the principle of these proposals is that the rate should follow the ground-value, and be borne by those who are in the beneficial receipt of the ground-value, or any part of it, each person paying the rate upon the part of the ground-value which passes into his pocket. In the instance given, the occupier will deduct from the rent which he pays to the intermediate landlord £125, *i.e.*, five shillings in the pound upon the whole ground value of £500. The intermediate landlord will in a similar way deduct five shillings in the pound upon the rent that he pays to the freeholder, *i.e.*, five shillings in the pound on £100. He will thus himself bear the ground rate of five shillings in the pound upon £400. This is just and in accordance with the principles we have enunciated, because he receives and retains that portion of the annual ground-value. In this way each person who is in receipt of any portion of the annual ground-value will contribute a fair share of it towards the burdens of the community.

EXAMINATION OF OBJECTIONS.

It will now be necessary to examine the chief objections raised to

* See a letter of Mr. C. Harrison, in the *Daily News* of August 13th, 1889.

these proposals. They are three in number, and may be shortly stated as follows:—

(1) That the proposed changes would have no effect, because the landowner would still be able to throw the rates upon the occupier by requiring a higher ground rent.

(2) That the proposed changes would be unjust, because the landowners have acquired their land on the faith that the present system would continue, and it is inequitable to alter it so as to subject them to new taxation.

(3) That the proposed changes would be unjust if made to apply to existing leases, because they would deprive the landowners of the benefit of the covenants by which the occupiers have undertaken to pay all rates.

Sufficiency of these Provisions.

The first of these objections is simply a fallacy. Under the proposed system the ground-value will represent the full rental value that the landowner can obtain for the use of his land unburdened by any rates. This is a sum which will be determined by considerations relating to the land itself, such as the convenience of its situation, the advantages which it possesses for certain special uses, &c., &c., and by these alone. In ascertaining the rental which he can afford to give for the free use of the land, the proposed tenant will not be affected by the question what portion of that rent will be retained by the landowner and what proportion will be paid over in rates, any more than he would be affected by the question whether the land belonged to a single owner or to joint owners. If the rate on ground-values is fixed at five shillings in the pound the landowner will be in precisely the same position as if there were two joint owners whose shares were in the proportion of three to one. No one would suggest that two such joint owners could get a higher rent than a single owner, or that the one with the larger shrare could make the occupier pay an extra rent to compensate him for what he must hand over to his co-owner. In precisely the same way the total ground-value will be unaffected by the existence or amount of the rate, and whatever may be the rate that the community decide to impose, that exact proportion of the ground-value will be deducted from the amount that the land would otherwise bring in to the landowner, and the rate will, therefore, be borne exclusively by him and not by the occupier.

Landowners have no vested interest in present exemption.

The second of these objections is a very favourite one. It may be put thus:—The landowners acquired their land at a time when rates were borne by the occupiers and the landowners were not required to pay any; they acquired it on the faith that this state of things would continue and without any warning of its being presently changed, therefore it is confiscation and a breach of faith to impose taxation upon them.

Even if all the propositions of fact were conceded they would wholly fail to support the conclusion sought to be drawn from them. No one has any right to assume that the taxes will not be altered. The efforts of all financial reformers are and ought to be directed to bringing about a more equitable distribution of taxation, and every such readjustment of the common burden makes it bear more heavily upon certain classes, or upon certain kinds of property. But this does not render these changes unjust or give any right of complaint to those who have been too lightly taxed in the past and are now made to contribute their fair share. The aim of financial legislation is to raise the requisite

revenue, whether local or national, from such sources and in such manner as to cause the least inconvenience or hurt to the community. It follows that as knowledge grows the methods adopted will from time to time be modified. But whatever be the method adopted at any time, it only represents the ideas of that time, and possesses no title to finality other than may belong to it intrinsically by reason of its being sound and just. There has never been and can never be an abandonment by the State of its right and duty to levy the taxes in the manner that it may from time to time judge best for the well-being of the community.

Precedents for these proposals.

There is something singularly inappropriate in the present instance in this plea that the tax would be without precedent and would be imposed without warning. So far from the tax being without precedent it has always been the custom to tax town-land, and the tax has in theory been paid by the landowners. Our present rates are levied upon the sum of the values of the land and the buildings, showing that it was thought right that both these kinds of property should be taxed, and (for some occult reason) should be taxed equally. And this rate upon the land would theoretically, and no doubt to some degree would actually, diminish the rent obtainable for the land, and so be partly borne by the landowner. Unfortunately the rate on the land was far too low in comparison with the rest of the taxation, while the proportion which was actually borne by the landowners was variable, and too often very trifling. The rates were levied in a way which rendered it easy for the landowners to evade their liabilities, and to take up the position of being freed from all duty of assisting the community in bearing such additions to its expenditure as its material, social, and intellectual development might from time to time require. This Society seeks to prevent this in the future, and to render adequate and certain the contribution from ground-values towards local taxation, and to ensure that such contribution shall be in proportion to the requirements of the community. But in doing this it will not be introducing a new mode of taxation. It will only be amplifying and rendering effective a mode of taxation which has long been in use, but of which the proper working has been prevented by the abuses which have been permitted to grow up around it.

Nor can it even be said that the form of the proposed taxation is a surprise. In 1866 the Select Committee on Metropolitan Government reported in favour of a tax being levied upon and paid by owners to aid in defraying the cost of permanent improvements. In 1870 a Select Committee upon Local Taxation, under the presidency of Mr. Goschen, reported in favour of the occupier being entitled to deduct a portion of his rates from his rent, which would have the effect of throwing the payment on the landlord. And even the present Government during the recent session in its Scotch Rating Act, established the principle that half of certain rates should be charged upon the owner. All these proposals have been more or less artificial in their character, because they have failed to draw a clear distinction between the two elements of value in town property, and to permit each to bear its proper tax, but they have all been fair warnings that the peculiar immunity from public burdens that landowners were enjoying was not likely to last much longer.

Although for these special reasons it is idle to plead that the taxation of ground-values is something unprecedented, coming as a surprise upon

innocent investors and confiscating their property, yet it is not to this answer to the objection that the greatest weight ought to be attached. The most complete answer is furnished by that fundamental principle of the existence of a self-governed State to which reference was first made, viz., that it is the duty of the State to apportion its taxation in the manner in which it will cause least harm to the community, and not the less so because it has erred in this respect in the past. For it is not intended that the proposed readjustment shall leave the tax on ground-values the same as it is at present, even in theory. This kind of property has not been made to bear its proper share of local taxation in the past and therefore the proposed changes, although they will be to some extent a mere alteration in the mode of collecting an existing tax, will to a great extent amount to the imposition of a new tax levied upon the owners of ground-values; because the community will no longer permit them selfishly to evade bearing their share in its ever-increasing burdens, or substantially to appropriate the benefit of its expenditure without duly contributing to it.

Existing leases. But of these three objections, the one which is in appearance the most formidable, and which is relied upon with most confidence by the opponents of these reforms, is that which relates to their application to existing leases. It is said—"The principle of rating landowners in respect of their land may be just and desirable so far as future leases are concerned, but inasmuch as the present tenants have covenanted to pay all rates, the landlords ought not to be made to pay any during the currency of the present leases."

Yet the fallacy of this argument is easily made evident. It falls to the ground so soon as it is conceded that the State has a right to impose new taxes. *If it is right for the State to impose a tax upon a class of persons, it is right to take all necessary precautions to ensure that it shall actually fall upon and be paid by that class and not by some other.*

Suppose that it is established that the owners of ground-values do not bear their fair share of local taxation and that it would be just to impose a further tax upon them. The State has the right and the duty to impose it. But in the present state of things, the mere imposition of a new rate, without further precautions being taken, would not be a tax upon the owners of ground-values. It would not avail to make the owners of that class of property pay any portion of the new taxation, but would only add to the burdens of the already too heavily taxed occupiers. It is therefore not only permissible that the legislature, in imposing the new rate, should provide that it shall actually be paid by the landowners, but it is obligatory upon it to do so. Without such a provision there would be no justification for the tax, because it would be a further tax upon occupiers, and not a tax upon landowners, and to say that the legislature cannot so provide is to say that the State can be precluded from imposing just taxes by reason of private arrangements between its members.

This is conclusive so far as the tax is a new one, but it leaves open to a certain extent the question whether the owners of ground-values under existing leases may not be entitled to some relief in respect of the proposed rate, so far as it is a mere substitution for an existing one. It will be said that in certain cases the tenant's rent would have been higher but for his undertaking to pay the rates; to that extent, therefore, the landlord is now bearing the rates in the shape of a reduction of his rents, and if he is made to bear it personally in the manner

proposed, it is fair that the tenant should contribute. It is not necessary here to discuss whether any special provisions should be made to meet such cases or what they should be. Opinions will differ upon these points. Much will depend on the particular form of tenure in each case, and the person who under that tenure is the actual recipient of the benefits of the expenditure of the community. But speaking generally, any such provisions should have reference only to the circumstances existing at the date of the lease, and no heed should be paid to any claim by the landlord to immunity from rates subsequently imposed, and such provisions should also be confined to leases of recent date. The nature and amount of our local expenditure has changed so greatly in late years, and the undeserved benefits which landowners have received from their successful evasion of their duty to contribute to it has been so large, that no equitable claim to special consideration can be made in other cases.

CONCLUSION.

We have now dealt with the objects of this Society, the means whereby it seeks to accomplish them, and the objections usually brought against them. It will be seen that these objects are limited. It is not pretended that they include all the reform that is needed in the tenure of town land. The landowner is still left in the position of a monopolist of an article necessary to the existence of the community, and it may be desirable to limit the extent of his powers. With these questions this Society does not profess to deal. But its objects, though limited, are not insignificant and it has faith that if these are attained they will remove many difficulties in relation to the life of our towns and greatly facilitate the solution of others. The reforms which it seeks to effect will prevent land in and near our towns being kept unoccupied to serve the selfish interests of its owners, who will be stimulated to bring it into immediate use to the great relief of our overcrowded centres of industry. By enabling the community to modify and lessen the present rates on buildings, they will promote the erection of better houses, and greatly relieve the poorer classes, whose rent forms so large a portion of their whole expenditure. But above all, they will enable us to deal at once with the formidable evils that are threatening our towns. It has been rightly said that our town life is the most serious problem of the day. The tendency of population to come to the towns seems irresistible, and yet the lot that awaits the new-comers is too often a melancholy one. Side by side with overflowing prosperity we find abject wretchedness. Poverty and overcrowding seem to attend, and even to measure our ever-increasing wealth. The magnitude of these evils is fully known and appreciated, but the inhabitants of our towns already groan so deeply under the burden of local taxation, that they have not the courage to seek to remove them. And amid all this they see the land in their towns swelling in value, and its owners acquiring colossal fortunes without any effort. They are rapidly learning that this rise in value is the direct result of the existence and expenditure of the community, and that their burdens are thus heavy only because they have been expending their wealth to enrich the landowners. And of this expenditure the landowners bear no substantial share. We are continually reminded of this in the most forcible manner. There are towns in England of which one or two landowners possess the whole.

It is no unusual thing for men such as these to draw many thousands a year from ground rents which do not pay one farthing to local taxation, and ultimately to come into possession of whole districts of the town which have been developed and beautified without any assistance from them.

These things will not be borne much longer, and the remedy now proposed, while in all respects required by the justice of the case, is at once the most gentle and the most readily applied. By establishing the assessment and direct taxation of ground-values, we shall provide a fund for the development of our towns, and the more adequate performance by the community of their duties to the inhabitants which will in no way be a tax upon the outlay of capital on the town, but will only amount to a reservation by the community of a fair proportion of those ground-values which have been created and maintained by its efforts and sacrifices. The existence of such a fund will stimulate and encourage the community promptly to face the cost and difficulty of the pressing social reforms of our towns and if the readjustment of local taxation on this equitable basis causes some hardship in individual cases it will only be because this just reform has been too long delayed. These hardships can only occur at first. So soon as the new system is fairly established, people will recognise that the possession of town lands with all their attendant privileges and advantages brings with it corresponding duties and obligations, and they will cease to think it hard that landowners who mainly reap the pecuniary benefit of local expenditure should fairly contribute to it.

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